



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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### The Republican Debt Party

Dear Democratic Colleague:

Just last year, after eight consecutive years of improving budgets, and three consecutive surpluses, Republicans assured us that we could pay off the nation's entire debt — and save every penny of the Social Security Trust Fund surplus, and reform Social Security, and provide a Medicare prescription drug benefit, and vastly expand the nation's defenses; and then, with the money left over, provide an enormous tax cut. Of course, the Republicans chose to pursue the tax cut first. Now, the resulting buildup of debt threatens the rest of that agenda — and the economic prospects of the nation in the longer term.

The two straight years of deterioration of the budget and the appearance of the first deficit in five years provide a picture of the budget situation. But the budget is in fact far worse than the new August Congressional Budget Office (CBO) baseline reflects. As the following table shows, a more complete accounting of the pressures on the budget indicates that it could remain in deficit — and the debt could increase continuously — for the next ten years.

The CBO baseline does not capture all of the likely demands on the budget that are not yet in law. Adding the President's own requests, from his *Mid-Session Review* — including the cost of making permanent the 2001 tax cuts — provides a more accurate picture (the third projection in the table below).

However, there are still more costs around the corner. A war in Iraq, using even the most cautious of CBO's estimates, would add more than \$100 billion to the debt (the fourth projection in the table).

And then there is an entire policy agenda, the price of which the Republicans have not yet acknowledged (the final lines in the table). Some of these agenda items are policies that Republicans have espoused outside of the President's formal budget. Others are costs brought on by the President's own policies, but not yet acknowledged in the budget process.

The additional cost of the House Republican Medicare prescription drug program over the President's *Mid-Session Review* proposal would be \$147 billion (the President asked for \$190 billion; the House bill cost \$347 billion). House Republicans have proposed numerous

additional tax cuts in response to the President's Waco economic summit (including expansion of the deductible amount of net capital losses, increases in maximum IRA and pension contributions for those few who can afford them; postponement of the maximum age for beginning IRA withdrawals, for those fortunate enough not to need their IRA savings until they reach the age of 75; and extending the deduction for educational savings accounts to cover elementary, secondary, and home schooling costs).

Finally, the 2001 tax cuts have vastly worsened the already serious problem of the ballooning individual alternative minimum tax (AMT). Under the prior law, the population affected by the AMT would have increased from about 1.5 million in 2001 to about 17.5 million in 2010, but the 2001 law increased the number of taxpayers affected to about 35 million. Merely reducing that 2010 reach to 6.0 million taxpayers, or four times number in the most recent tax-filing cycle, would cost more than \$500 billion through 2012.

Adding all of these costs to the budget yields a truly dismal picture. The budget never regains unified balance, and thus consumes literally all of the Medicare and Social Security Trust Fund surpluses over the ten years 2003-2012, with \$1 trillion of deficit besides. And because the budget remains in deficit for as far as the eye can see, the nation's debt load is only increased. By the end of the budget window, the debt approaches \$4.8 trillion, and is \$7.0 trillion worse than the May 2001 projection at the end of 2011.

By that time, of course, the coming demographic transformation will have begun with the retirement of the baby-boom generation. The first of the baby boom will have begun collecting Social Security benefits in 2008, and Medicare benefits in 2011. And with the current Republican policy agenda, the nation will have done nothing to prepare — other than to pile on still more debt.

Sincerely,

John M. Spratt, Jr.  
Ranking Democratic Member

### CURRENT DEBT OUTLOOK

CBO Scoring; Billions of Dollars; Debt Measured at End of Fiscal Year

|   | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010   | 2011   |
|---|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| CBO 2001 Baseline                         | 2,870 | 2,537 | 2,157 | 1,738 | 1,246 | 682   | 54    | -651  | -1,444 | -2,314 |
| CBO Current Baseline                      | 3,504 | 3,676 | 3,805 | 3,862 | 3,865 | 3,829 | 3,757 | 3,639 | 3,476  | 3,167  |
| Change from 2001                          | 634   | 1,139 | 1,648 | 2,124 | 2,619 | 3,147 | 3,703 | 4,290 | 4,920  | 5,481  |
| Debt with Pres. Policy                    | 3,519 | 3,706 | 3,862 | 3,956 | 4,018 | 4,058 | 4,077 | 4,058 | 4,004  | 3,911  |
| Change from 2001                          | 649   | 1,169 | 1,705 | 2,218 | 2,772 | 3,376 | 4,023 | 4,709 | 5,448  | 6,225  |
| Pres. Policy and Iraq                     | 3,519 | 3,724 | 3,905 | 4,022 | 4,100 | 4,147 | 4,172 | 4,158 | 4,110  | 4,022  |
| Change from 2001                          | 649   | 1,187 | 1,748 | 2,284 | 2,854 | 3,465 | 4,118 | 4,809 | 5,554  | 6,336  |
| Pres. Policy, Iraq,<br>and Further Agenda | 3,519 | 3,732 | 3,929 | 4,088 | 4,220 | 4,335 | 4,447 | 4,545 | 4,633  | 4,711  |
| Change from 2001                          | 649   | 1,195 | 1,772 | 2,350 | 2,974 | 3,653 | 4,393 | 5,196 | 6,077  | 7,025  |

*Negative numbers indicate projected holdings of assets in excess of amount of outstanding debt.  
Changes are from the CBO 2001 baseline for the same year.*